



# AN EVALUATION OF NEW UNITED STATES FREE TRADE AGREEMENTS TO PROMOTE EXPORT-LED DOMESTIC MANUFACTURING GROWTH IN AN ERA OF ANTI-FREE TRADE POLITICAL FACTIONS

**Dr. James Tanoos**

Clinical Associate Professor, Purdue University.

## ABSTRACT

Prompted initially by the economic success of the North American Free Trade Agreement, trade cooperation around the world is on the rise, leading to a flurry of new Free Trade Agreements. While economies in developed countries such as the US have achieved growth due to the lowering of trade barriers that follow completed FTA's, coinciding tensions have escalated from factions within the industrial sectors of the economy who claim that overall imports increase but at the expense of overall domestic output and export growth. The Asia-Pacific region, particularly China, has concurrently seen unprecedented economic success with their own successfully negotiated FTA's, driven by the access to new markets which allow for the export of their manufactured goods. As a result of the economic success of this phenomenon, races to pursue new FTA's have emerged, along with resistance from a variety of international actors. For example, the proposed Trans-Pacific Partnership, a FTA linking the US to East Asian countries specifically not including China, has escalated tensions from labor groups within the US who claim that FTA's hurt US manufacturing growth. This study assesses trends in trade with recently completed US FTA partners in order to determine the merits of domestic industrial factions in their claims that FTA's hurt overall US exports.

## INTRODUCTION

Although most economists advocate for free trade because it increases the standard of living in a country, there is a split in consensus about whether it advances domestic production and overall exports. For free trade between a developed and underdeveloped country, analysts indicate that FTA's (Free Trade Agreements) result in an increase in both imports from the developed country and overall economic welfare for both countries. While most international economists point to the overall economic benefit of FTA's and suggest that the lost domestic jobs in the developed country will be made up for due to overall export growth, some dispute these claims and indicate that total domestic manufacturing output and overall exports in the developed country will be negatively impacted (Public Citizen, 2015).

Recent political dialogue in the US has raged over the merits of new FTA's, most notably the 2015 Trans-Pacific Partnership (TPP), prompting increased salience for this discipline in both the media and literature. Much of the opposition to the TPP has originated from trade unions and other activists, which often organize, protest, and lobby in an efficient and passionate fashion. This study will analyze historical US trade patterns with new FTA partners to assess US trends in exports and imports in the years before and after the FTA takes effect. This analysis will consider whether the anti-FTA actors have merit in their claim of these negative coinciding consequences in their stance against FTA's.

## LITERATURE REVIEW AND BACKGROUND

Economists are in near unanimity advocating for the overall financial advantages and benefits ensuing from free trade, as the vast majority of international economists point to overall economic gains from the reduction of trade barriers through out history (Krugman, 1997; Kellenberg & Levinson, 2014; Irwin, 2015). The World Bank (2005) noted the elimination of trade barriers as a "central" component of domestic GDP growth.

Trade barriers are dramatically lowered or even outlawed completely for trade partners who successfully negotiate a FTA. Historically, FTA partners were developed countries, but now developed countries are increasingly negotiating with underdeveloped countries to pursue potential FTA's (Hoadley & Yang, 2007; Yunling, 2009). Geopolitical scholars point to the importance of market access for underdeveloped countries due to the necessary economic development that these FTA's provide (Mountjoy, 2007). The lack of FTA's has even been utilized as an explanation for economic stagnation and unemployment in an underdeveloped country, and as a result, much time and effort are dedicated to FTA's (Neumayer, 2013; Liu, 2014). In addition to their economic advantages, many governments in underdeveloped areas see these potential FTA's as means of cementing political and cultural ties and overall diplomatic and "broad interests" (Serfati, 2015, p. 7).

Historically, corporate America has staunchly advocated for the efficient flow of resources via FTA's (Bacon, 2004; Barlett & Steele, 2013). The passage of the North American Free Trade Agreement (NAFTA) in 1994 was seen as a catalyst for the unrestricted flow of goods in a region and was a major factor in raising the overall economies of all three member partners, subsequently prompting additional FTA's around the world. Trade between the partners increased dramatically as a result, Hassanien (2010, p. 180) confirmed that US trade increased "particularly with those countries that have signed free trade agreements."

However, associated anti-FTA debate which first started during NAFTA continues to elicit emotional responses in the US (Hufbauer & Schott, 2005; Bell, 2009; Granville, 2015). Manufacturing and industrial production are the sectors in which developing countries can best gain economic development by entering into FTA's with developed countries (Akyüz, 2003; Holley et al., 2011; Steers & Nardon, 2014). This industrial competition due to better access to imports has been cited as a key cause of US manufacturing declines (Autor et al., 2013; Kimeldorf, 2013; Amity, et al., 2014). The loss of industrial jobs at high wage rates in the US has been the main focus of those that rally against American free trade, as anti-NAFTA factions continue to argue that US manufacturing jobs and US export competitiveness have been lost and that factory closings have occurred as a result of the implementation of the agreement, in addition to the degradation of global environmental conditions and human rights (Cameron & Tomlin, 2002; Hufbauer & Schott, 2005). By 2004, a poll indicated that 51% of Americans believed NAFTA had been bad for the US economy because cheap imports from abroad cost jobs at home (Americans and the World, 2004), while Scott (2003) reported that 78% of the net job losses under NAFTA were high-paying American manufacturing jobs, contributing to Kimeldorf's (2013, p. 1033) description of the current state of US labor as "embattled". These worries have prompted the US International Trade Commission to automatically report to Congress about the impact of any potential FTA's on US manufacturing sectors (American Journal of International Law, 2004).

American FTA tensions have now directed their focus towards China. As a result of many cheaper, low-cost products such as toys and textiles now being produced in China, an increasing number of factions have voiced displeasure at the implications (Wu, 2007; Harney, 2009; Cook, 2015). Brandt et al. (2012) found positive domestic productivity benefits for Chinese manufacturers due to overall trade liberalization. However, many pundits point to trade liberalization as a cause of decreased export rates and claim that has a negative effect on total domestic output for the developed countries which China exports goods (Abo, 2010; Rein, 2012; Autor et al., 2013). These fears have given rise to protectionist factions within the US government and citizenry.

The US Trade Promotion Authority process allows the US to expedite or "fast track" new FTA's, and the number of FTA's in the US have increased as a result of this power. Fast-tracking FTA's via this process necessitates that Congress vote to give the go-ahead (Cooper, 2014), but does not permit Congress to amend or change the terms of the deals. The Obama administration actively sought and advanced bilateral FTA's during the first term, notably with Panama and Colombia (Cooper, 2014; Tarr, 2014), perceiving FTA's as a means of expanding the overall economy and increasing US exports (Cooper, 2014; Pomante & Schraufnagel, 2014).

In 2015, the United States Congress bitterly debated the Trans-Pacific Partnership (TPP), an international free trade agreement connecting the NAFTA trade partners to Pacific Rim countries, not including China. This has been labeled "the most ambitious trade deal" since the signing of NAFTA (Granville, 2015, p. 2) and is seen as a deal that boosts the Japanese influence in the region at the expense of China (Schlesinger et al., 2015). It has been noted that this is the result of numerous agreements in the region and necessitates a "chain-reaction" response by the US to keep up with regional supply-chain cooperation (Ervine & Fridel, 2015, p. 88). Anti FTA actors against the TPP included union members in the US, a group that is often against free trade because of fears resulting from the

increased access of global competition to the US market. Labor unions and their supporters have had a major role in lobbying against such FTA's (Glick, 2010; Serfati, 2015). The Democratic political party in the US Congress, prompted by heavy labor union influence, was in near unanimity against the TPP claiming that it benefits underdeveloped countries at the overall expense of the US due to lost domestic manufacturing jobs (Singh, 2012; Wang, 2015; Schlesinger et al., 2015). The Obama administration perceived the TPP as a broad agreement going beyond trade to serve as a means of diplomacy, or as a counterweight to the Association of Southeast Asian Nations (ASEAN) trade partnership, a regional Asia-Pacific trade bloc from which many have said that China benefits the most (Serfati, 2015; Wang, 2015). The US government's website actually touts the Trans-Pacific trade partnership as a benefit to "made-in America exports" (Office of the United States Trade Representative, 2015). As a result, this controversial FTA garnered much debate during the first half of 2015.

Partially as a result of the US's fast-tracking collaborations with new potential trade partners, China has accelerated its own new trade negotiations, as the country has witnessed much recent success in pursuing and successfully negotiating FTA's (Zhang, 2007; Baldwin, 2009; Antons & Hilty 2014; Hu & Vanhullebusch, 2014). According to the Chinese Ministry of Commerce, China perceives FTA's as important components of not only integrating into the global economy and but also furthering domestic reforms (Zhang, 2007; Feng, 2012; FTA, 2015). This has been a recent phenomenon, as Hoadley and Yang (2007) characterized China's political leaders as still "relative newcomers" in working toward FTA's in 2007.

In the aftermath of NAFTA's success, the Asia Pacific trade region has witnessed recent trends of governments negotiating new FTA's (Yunling, 2009; Tosevska, 2010). In the East Asian region, it is becoming more common in for governments to pursue "bilateral" or "extra-regional" FTA's, which are targeted towards individual countries rather than a regional bloc (Fora, 2014). Baldwin (2009, p. 181) confirmed that "rich nations increasingly rely on bilateralism to open up foreign markets." These arrangements go beyond the more historical cross-regional FTA's such as ASEAN (Hoadley, 2007; Tosevska, 2010). They also take less time to negotiate and usually exist between individual countries with mutual economic and/or political interests. These bilateral free trade partner strategies have been an increasingly important strategy of the Chinese government in particular (Hoadley, 2007; Cook, 2015). New Zealand and Chile have been cited as popular bilateral FTA successes with China (Hoadley, 2007). China's race to complete FTA's is due in part to their desire to export more goods at greater rates and compete with the US for trade superiority. Allee and Scalera (2012, p. 243) noted that countries such as China that successfully reach concluded trade agreements witness the greatest increases in trade "particularly in the years right after joining."

The race to negotiate and successfully secure FTA's, as well as the tensions from anti-FTA factions in developed countries prompted Serfati (2015, p. 33) to describe the current international trade climate as having "internal tensions among... government actors." Not only do these actors include groups within countries that have grievances with FTA's, but also governments that have rivalries with other governments in attempting to secure new FTA's.

By 2015, stimulated by the debate in the US Congress over the worth of the Trans-Pacific Partnership FTA, these factions mounted one of the most aggressive anti-FTA movements in the history of the US (Irwin, 2015; Granville, 2015, Public Citizen, 2015). With the increased salience of FTA's in international trade, much dispute has ensued as to whether anti-FTA factions such as trade unions in developed countries have merits to their claims that FTA's have an overall negative impact on domestic manufacturing and America's export competitiveness. One can only surmise that with the continued race among governments to negotiate new FTA's, anti-FTA factions in the developed world will continue to advocate against them.

Therefore, the Hassanien (2010, p. 180) study confirming that US trade increases "particularly with those countries that have signed free trade agreements" will be used as an impetus for analysis, but the data will be further examined from the perspective of not only US imports, which economists note will increase, but also US exports. As such, this study will explore changes in US trade patterns with new US FTA countries. Assessing overall trends in US exports versus imports in the years after the FTA takes effect would allow further interpretation of whether these anti-FTA coalitions have merit in their claims that these FTA's increase overall economic benefit at the expense of overall domestic production. Further, it will also compare imports and exports for bilateral versus regional American FTA's immediately after recent FTA's go into effect. Thus, this study will attempt to analyze the Obama administration's assertion that (made-in-America) exports will increase as a result of the Trans-Pacific Partnership FTA, based on recent trends from recently concluded FTA's.

#### DATA AND METHODOLOGY

A cross-sectional analysis of historical trends in US trade related to completed US FTA agreements was the overall design for this study. Since anti-FTA factions in the US make claims that total domestic manufacturing output and overall global competitiveness for exports would be hurt, trade data with new US FTA partners were assessed. As such, export and import data between the US and US

trade partners in both the years before and in the years immediately after the concluded FTA's went into effect were sought. This study also pursued data related to the same trends from the perspective of US bilateral FTA's versus regional FTA's (CAFTA).

In order to assess the dates from which US FTA's were officially concluded, information from the US Department of Commerce's (2015) International Trade Administration was utilized. According to this source, by July 2015, the United States had FTA's in force with 20 countries (Office of Trade Policy and Analysis, 2015). Since this study hoped to examine new US FTA's and their effect on recent trade, the partners in NAFTA, which was concluded before 2000, along with the US/Israel FTA from 1995, were not included in the sample set. In order to determine the year in which the FTA started, the US Dept. of Commerce's terminology of when the FTA "went into force" was used as the first year of analysis to determine the effects of the FTA.

The countries included in this study are seen in Table 1 below. Since this study further examined bilateral versus regional FTA effects, the table further includes differences between US bilateral and regional trade partners. The countries that participate in the Central America Free Trade Agreement (CAFTA), which was an expansion of NAFTA are labeled with an asterisk on the chart.

**Table 1.**  
**US FTA Partners and the Year the FTA Went Into Effect**

	Year the FTA went into effect
Australia	'05
Bahrain	'06
Canada	'94
Chile	'04
Columbia	'12
Costa Rica*	'04
Dominican Republic*	'04
El Salvador*	'04
Guatemala*	'04
Honduras*	'04
Israel	'95
Jordan	'01
Korea	'12
Mexico	'94
Morocco	'06
Nicaragua*	'04
Oman	'09
Panama	'12
Peru	'09
Singapore	'04

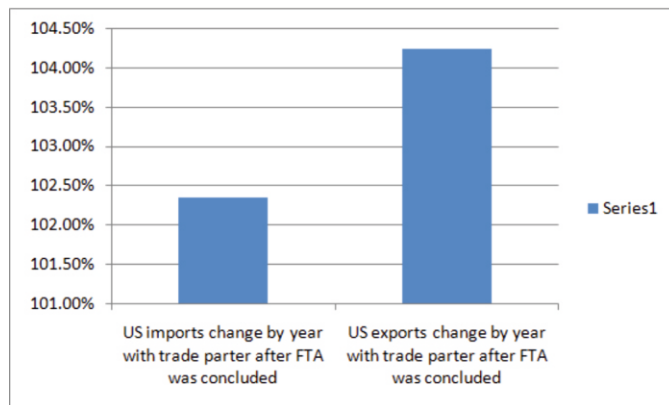
Based on the Hassanien (2010) study confirming that US trade increases "particularly with those countries that have signed free trade agreements," this assessment focused on data related to US exports and imports with the new FTA partners in the years immediately after the concluded FTA. The data utilized for dollar figures of total exports and imports were taken from the United States Census Bureau in their Foreign Trade area, "balance by partner country" (United States Census Bureau, 2015). The "US trade in goods" with each country in the sample set was filtered by year.

Ultimately, percentage changes in exports from year to year were included in order to compare like totals. Several categories were analyzed, including percentage year-to-year change in total exports and imports after the concluded FTA went into effect and percentage year-to-year change in total exports and imports in the five years before the concluded FTA. In order to control for normal fluctuations in the economy, the total country GDP's (United Nations, 2015) were taken into account to determine the general rate of world GDP increase or decrease. This yearly percentage increase or decrease from the prior year was multiplied by the raw total of imports and exports from the FTA countries. In order to assess bilateral FTA's versus regional FTA's, the same information from the CAFTA countries versus the rest of the bilateral FTA countries was also clustered in order to assess any trade differences in the bilateral FTA's versus the countries in the regional FTA. The average of each of the CAFTA members' year-to-year totals was utilized for this comparison.

#### RESULTS

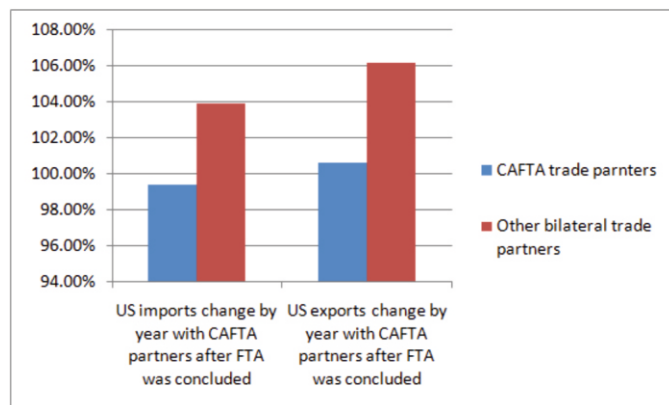
For all US FTA trade, the year-to-year imports change with all trade partners after the FTA was 102.35%, whereas the year-to-year change in exports with all trade partners after the FTA was 104.25%. As such, it appears that the US has not only witnessed the predicted increases in imports after the FTA, but also has witnessed even more success in exporting to new FTA countries in the immediate

aftermath of a successfully concluded FTA. Figure 1 below displays the US imports versus exports change by year after the FTA was concluded.



**Figure 1.**  
**US Imports Versus Exports With Trade Partner: Changes by year after the FTA was concluded.**

The study then investigated whether there were any trade differences in the bilateral versus regional (CAFTA) US FTA's. There was a greater increase in both imports (103.95%) and exports (106.21%) with bilateral FTA partners than in imports (99.40%) and exports (100.65%) with regional (CAFTA) FTA partners, displayed in Figure 2 below.



**Figure 2.**  
**US Imports Versus Exports With Trade Partner: Changes by year with regional versus bilateral trade partners**

## REACTIONS/FUTURE STUDIES

The data indicating that US exports went up at greater rates than imports in the years immediately after a concluded FTA may be important in responding to anti-FTA factions in the US. This should better substantiate the claim of the Obama administration that "made-in-America-exports" would benefit as a result of the successful negotiation of a new FTA.

Whereas many assume that US FTA's inhibit overall domestic manufacturing and export competitiveness, the opposite appears to be true. While it is true, some domestic sectors might be hurt as a result of FTA's.

While there is bound to be more public outrage in the US by groups opposed to FTA's such as trade unions, the retorts from those advocating for new FTA's should discuss the expansion of overall exports, which allows for the expansion of the overall domestic manufacturing base. A dialogue might even move beyond the TPP and should be directed towards an inclusion of China into a regional or bilateral US FTA, since historical data suggests that FTA's increase overall US exports. As new FTA's continue to be negotiated, the US government should continue job training for those that lose their jobs but should not buy into the argument that total exports will decrease as a result.

In addition, it appears that the bilateral US FTA's have had greater trade success than the regional CAFTA. Since bilateral FTA's seem to be on the rise, it behooves future researchers to analyze what types of characteristics or variables exist in a potential bilateral FTA partner that may provide the best trade potential.

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